

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2271-01
Bill No.: HB 930
Subject: Economic Development; Taxation and Revenue
Type: Original
Date: April 9, 2009

Bill Summary: This proposal establishes the Duty Free Zone Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on General Revenue Fund	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Blighted Area Restoration Fund*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

* potential income and expense offset.

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the State Treasurer** and the **Department of Revenue** each assume the proposal would not fiscally impact their respective agencies.

Officials from the **Office of Administration - Budget and Planning (BAP)** state they are unsure what is intended by the language proposed in Section 99.1168. The section refers to "any tax dollars collected" by the proposal, but the proposal does not specify any new taxes. Budget and Planning is unsure as to what impacts, if any, this may have on general and total state revenues.

Also, Budget and Planning is unsure of the impacts associated with the 'tax favored status'. Section 99.1156 allows a municipality to grant tax favored status, which, as defined in Section 99.1153(5), may include state sales and use taxes, since all of RSMo 144 is referenced. This could have a negative impact on state sales and use tax collections and may therefore affect total and general revenue.

Officials from the **Department of Economic Development - Missouri Finance Development Board (DED/MDFB)** assume there would be a required review and approval process of proposals that were passed by the municipalities and county and submitted. This review process would not take place unless a constitutional amendment were legislatively placed on the ballot and passed. DED/MDFB assume the vote would take place no earlier than November 2009 and no proposals would make it through municipal/county approval until after July 2010 (FY 2011). Any proposals submitted to DED/MDFB would have to be reviewed and approved or denied based on an analysis. The analysis would include reviewing the ordinance and proposal, coordinating previous sales tax revenues verification with DoR, verifying existence of an affidavit, and reviewing any other information requested. DED/MDFB assumes the impact could require one FTE and related costs but has projected an unknown fiscal impact. DED assumes there would be impact on General revenue but the amount would be an unknown negative.

DED/MDFB assumes no impact would be incurred unless/until a constitutional amendment was passed. If the amendment passed, DED/MDFB assumes there would be no fiscal impact until FY 2011. At that time the impact would be unknown and dependent on how many approved proposals were submitted for review. DED/MDFB assumes the impact could require one FTE and related costs but has projected an unknown fiscal impact. DED assumes there would be impact on General Revenue but the amount would be and unknown negative.

Officials from the **City of Kansas City** assume the legislation may have a positive fiscal impact on their city because the bill could cause an increase in property and earnings tax receipts.

Officials from the **City of St. Louis** did not respond to our request for fiscal impact.

Oversight is unsure how many (if any) municipalities will apply for the duty free zone certification or if DED will require additional FTE to administer the program. Therefore, Oversight will assume all of the fiscal impacts to the General Revenue fund and the newly created Blighted Area Restoration Fund to be \$0 or an Unknown amount.

Oversight assumes the potential income and expenditures out of the new Blighted Area Restoration Fund will net to zero each year.

Oversight assumes this proposal is permissive to the local political subdivisions and therefore have not shown a fiscal impact to municipalities and/or counties.

As written, **Oversight** assumes this program will not require an approved constitutional amendment as assumed by DED.

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE			
<u>Costs</u> - Department of Economic Development - potential need for additional FTE depending upon the number of duty free zones that apply and are granted status.	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Loss</u> - Department of Revenue - of tax revenue if duty free zone is created	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	\$0 or (UNKNOWN)	\$0 or (UNKNOWN)	\$0 or (UNKNOWN)

FISCAL IMPACT - State Government
 (continued)

FY 2010
 (10 Mo.)

FY 2011

FY 2012

**BLIGHTED AREA RESTORATION
 FUND**

Income - Per Section 99.1168 - any tax dollars collected under this proposal shall be directed to this fund

\$0 or Unknown

\$0 or Unknown

\$0 or Unknown

Costs - Per Section 99.1171 - any moneys collected within a duty free zone shall be used to restore any blighted area within the zone

\$0 or
(Unknown)

\$0 or
(Unknown)

\$0 or
(Unknown)

**ESTIMATED NET EFFECT TO THE
 BLIGHTED AREA RESTORATION
 FUND**

\$0

\$0

\$0

FISCAL IMPACT - Local Government

FY 2010
 (10 Mo.)

FY 2011

FY 2012

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Small businesses within the newly created zones could be positively impacted by this proposal.

FISCAL DESCRIPTION

This bill establishes the Duty Free Zones Act which authorizes the creation of tax-free or reduced-tax zones.

The governing body of any city may designate a portion of the city as a duty-free zone and grant the district tax-favored status for up to 23 years by adopting an ordinance. The ordinance must contain:

- (1) A statement that the proposed duty-free zone is a blighted area located within a qualified census tract;
- (2) The reduced tax rate or tax-favored status granted to the zone;
- (3) The term and conditions of the tax-favored status;
- (4) The general boundaries of the proposed duty-free zone by street location; and
- (5) The name of the duty-free zone.

Prior to the adoption of the ordinance, the city must hold a public hearing. The bill specifies the requirements for the hearing including the public's notification.

The city cannot provide a duty-free zone with tax-favored status unless the ordinance adopted by the city's governing body is approved by the Missouri Development Finance Board within the Department of Economic Development. Upon adoption of the ordinance, the city must submit an application to the department for review. The department will submit an analysis and recommendation to the board, which will determine whether or not the zone's designation should be approved. The bill specifies the requirements of the application, which must include an affidavit attesting to the fact that the proposed zone is a blighted area. The department must make all reasonable efforts to process applications within 60 days of receipt.

Upon approval of tax-favored status for a duty-free zone, a certificate of approval will be issued by the department containing the reduced tax rate or tax-favored status and the term. Any business located within the duty-free zone may receive tax-favored status for up to 15 years.

No city may have more than one duty-free zone at any given time. Any tax funds collected in a duty-free zone must be deposited into the newly created Blighted Area Restoration Fund and used to restore any blighted area within the duty-free zone.

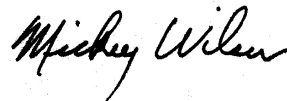
FISCAL DESCRIPTION (continued)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Office of the State Treasurer
Office of Administration - Budget and Planning
City of Kansas City

NOT RESPONDING
City of St. Louis



Mickey Wilson, CPA
Director
April 9, 2009